

FINAL REPORT

**THE TRANSITION TO A MARKET-BASED HOUSING SECTOR
IN ROMANIA**

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ABSTRACT

THE TRANSITION TO A MARKET-BASED HOUSING SECTOR IN ROMANIA by Francis Conway, Harold Katsura, Ileana Budisteanu and Ileana Pascal, January 1995 (Project 06283/107).

Since the people's revolt of December 1989, Romania's housing sector has undergone a dramatic transformation marked by rapid privatization and a reduced government role in the production and allocation of housing. The huge transfer of wealth that accompanied housing privatization has sparked the development of a private housing market. The report provides an overview of current housing conditions in Romania, with more detailed information on the situation in three cities - Bucharest, Bra_ov and Oradea. It goes on to suggest that efforts to strengthen and support the private housing market and to put in place sensible public housing assistance programs are justified at this time because they will produce immediate, real benefits in three key areas:

- *The housing sector may offer a unique opportunity for private citizens to act independently to improve their own well being without having to rely on the state.*
- *Housing assistance is a necessary component of the social safety net that will ease the transition to a market-based economy.*
- *By facilitating labor mobility, the housing sector will improve the efficiency of the labor market.*

In this context, the report identifies the priority needs of the housing sector in Romania today, as:

- *Maintaining and improving the existing housing stock*
- *Facilitating private residential real estate transactions*
- *Expanding access to the housing market*
- *Defining the role of government*

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EXECUTIVE SUMMARY

Current Status of the Housing Sector

Overview Since the people's revolt of December 1989, Romania's housing sector has undergone a dramatic transformation marked by rapid privatization and a reduced government role in the production and allocation of housing. Although the quality varies tremendously, Romania's housing stock, in a strictly numerical sense, appears to be adequate for the near future. In 1992, despite a dramatic drop in housing production from pre-revolution levels, the number of dwellings (7.66 million) exceeded the number of households (7.32 million) by about 350,000 units. Doubling up among unrelated households is rare. Only about one percent of all households shared their units with one or more households in 1992. The average household size in 1992 was 3.1 persons, down slightly from 3.2 persons in 1977. Housing consumption rose between 1977 and 1992, with the average floor space per person increasing from 8.9 square meters to 11.5 square meters. Overcrowding is not a problem for most households.

These numbers may not capture the housing problems of some subgroups including, for example, out-of-town job seekers and extended families containing young couples or older children who are unable to afford their own homes.

Romania experienced a modest baby boom in the second half of the 1960's due to a birth control ban. The population in this cohort, many of whom are now in their late 20's, may be a source of latent demand for housing.

The overall population, however, has declined in recent years due to a net natural population decrease and emigration. The population was about 23 million in 1992 of which 54 percent resided in urban areas--up from 44 percent in 1977. Additional housing demand may occur in some urban areas now that residency restrictions have been relaxed. Economic restructuring is likely to fuel internal migration by people who have lost their jobs, although it is unclear whether this will push people towards or away from cities.

By far, the biggest housing problem facing households is the operation and maintenance of the former public housing stock. The often large and unwieldy tenant associations are just now realizing that the state cannot

be counted on to solve their repair and maintenance problems. They are struggling to raise money to pay for services in an environment in which people are not accustomed to paying. There are no private residential property management firms in the country.

Although the pace of industrial privatization has been slow, the government has rapidly transferred the vast majority of the public housing stock to private hands. Even under communist rule, the country had a sizeable number of homeowners; in 1977, about 97 percent of the rural stock and 55 percent of the urban stock was in private ownership. These shares had become 96 percent and 63 percent, respectively, in 1992. By late 1994, only 347,000 dwellings remained in the public housing stock following a massive privatization campaign in which units were offered to sitting tenants on very favorable terms. An additional 241,000 units are awaiting resolution of restitution claims.

The Housing Market *The huge transfer of wealth that accompanied housing privatization has sparked the development of a private housing market. The number of sales transactions has gone from 38,775 in 1989 to 226,399 in 1993. While it is difficult to gauge its magnitude, partly because tax evasion has turned it into a grey market activity, a rental market has also developed. Brokers serving both the for sale and rental markets have appeared, and newspapers and television broadcasts regularly carry real estate advertisements. A group of brokers in Bucharest have recently formed a real estate association.*

A market-based housing finance system does not exist, and is not likely to develop in the near future. The major banks are still owned by the state, and housing credit has been largely confined to concessional loans to bank employees and to participants in government programs. Inflation, high interest rates, low incomes, high construction costs, and a preponderance of short term liabilities make lending for housing unattractive to banks.

In the absence of a market-based housing finance system, households have been self-financing most new construction on an installment basis. Existing homes are typically purchased using a single cash payment. In 1993, two-thirds of all housing production was financed

by private sources, whereas in 1989 only five percent was privately funded. With the decline of state-funded housing, the building industry has shifted to upscale housing and commercial projects to survive. A large share of new private housing construction consists of luxury apartment complexes and villas, many of which are being built with the assistance of foreign investors. The state is continuing to fund the completion of numerous buildings scattered around the country which were unfinished at the time of the revolution. An emerging problem is the high cost of new construction relative to the prices of existing units; a new unit can cost two to three times what an existing unit with similar features costs. High costs may, in part, be due to the use of outdated construction technology. In addition, jurisdictional and titling problems with land on the periphery of cities are driving land prices upwards. Inadequate infrastructure capacity threatens both the existing and future housing supply in some cities.

Significance of the Housing Sector

Efforts to strengthen and support the private housing market and to put in place sensible public housing assistance programs are justified at this time because they will produce immediate, real benefits in three key areas:

Improved well being Housing represents a considerable accumulation of wealth in the hands of households in Romania. As the country moves to a market-based housing sector, this wealth provides a unique opportunity for private citizens to act independently to improve their own well being without having to rely on the state.

Social Safety Net Some lower-income homeowners may be having difficulties meeting monthly payments for utility services. The housing situation is even more difficult for those who are not already homeowners or for those homeowners who lose their units. The options available to these groups in need are limited. Public housing programs are in disarray. The private housing market of lower-priced units for sale or for rent is just beginning to develop. In the short run, housing assistance should be an important component of the social safety net.

Labor mobility As Romania makes the hard but inevitable choices to restructure its economy to become competitive, many persons will need to find new employment in a different industry or different location or both. The ability of the housing market to accommodate these shifts will have a significant impact on the mobility of labor.

Priority needs in the housing sector

Maintaining and improving the existing housing stock The highest priority is to arrest the deterioration of the existing housing stock, particularly in blocks of apartments.

Facilitating private residential real estate transactions Romania needs a viable and agile private real estate market if households are to realize fully the opportunity for improved well being that is inherent in the housing they own.

Expanding access to the housing market The viability of the emerging market-based housing sector in Romania depends to a significant degree on expanding the current supply of affordable housing for sale or for rent.

Defining the role of government The government might want to concentrate at this point on creating the enabling framework for the new and evolving housing sector.

1. OVERVIEW

Since the people's revolt of December 1989, Romania's housing sector has undergone a dramatic transformation marked by rapid privatization and a reduced government role in the production and allocation of housing. Over the last five years, activity in this sector has been shaped by a flurry of legislative reforms and policy initiatives related to land and property rights, administrative decentralization, and the restructuring of the building industry. Several important laws are presently in draft form including the housing law, the cadastral law, and the urban and regional planning law, making this an ideal time to review the status of the sector and to identify possible technical assistance.

Current Housing Conditions The supply of housing, as measured by several conventional indicators, appears to be adequate for much of the population. In 1992, there were 7,664,262 dwelling units of which 7,186,747 were occupied, which implies the vacancy rate was about 6.2 percent. The number of households (7,317,563) was somewhat larger than the number of occupied units because some households share quarters. However, only about one percent of all occupied units contained more than one household. The average household size fell slightly between 1977 and 1992 from 3.2 to 3.1 persons.